INTERNAL TAXATION IN THE PHILIPPINES

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INTERNAL TAXATION IN THE PHILIPPINES

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CONTENTS.

PRELIMINARY NOTE.

The "Internal Revenue Law of Nineteen Hundred and Four," enacted by the Philippine Commission on July 2, 1904, repealed all of the old Spanish laws, then remaining in force and imposing internal taxes. It substituted in lieu of such taxes a system of internal taxation based largely on the American policy of obtaining a maximum of revenue from the manufacture, sale and consumption of articles of luxurious or optional use and a minimum of revenue from other sources. It has seemed wise to preface this paper with a brief summary of the various Spanish internal taxes obtaining in the past and especially at the time of the American occupation of the Philippine Islands. This will afford opportunity to students of tax problems and tax administration to judge as to the relative merits of the existing tax system, and of that which it replaced, and to form an intelligent opinion as to the necessity for the change.

INTERNAL TAXATION IN THE PHILIPPINES.

I.

The Old System.

The earliest record of excise taxation proper in the Philippine Islands is of a tax on the value of jewelry and golden trinkets which Governor Gonzalo Ronquillo, 1580–83, obliged the natives to pay to the insular treasury on pain of the confiscation of such ornaments as were concealed from the tax assessors. Before this time a tribute, or head tax, of one gold *maiz,* equal to about 3 *reales,* was being levied annually on each Indian and was made payable in money, cloth, rice or other staples at the option of the tax payer. The Indians were divided into *encomiendas* (royal grants), and the *encomendero* (grantee) usually collected the tribute in person, accompanied by a squad of arquebusiers. The principal Indian in each locality was required to deliver the tax for each Indian in his vicinity. Each *encomendero,* out of the money or produce thus collected, paid a per capita tax to the insular treasury. In 1577 this head tax was raised to 8 *reales* and later to 10 *reales.*

During the next two hundred years the head tax, or tribute, and occupation taxes collected from Chinese persons continued to constitute the main sources of internal revenue, although a few minor taxes, such as stamped paper and mint charges for the coinage of money were also introduced. In 1620 the total revenues were 593,922 pesos of which 300,000 pesos represented refunds from the treasury of Mexico of customs duties collected in the port of Acapulco on goods imported into that country from Manila. Of the internal revenue taxes Chinese residents paid 8,250 pesos as tribute and 112,000 pesos as occupation taxes.

The tribute, or head tax, paid by the Indians amounted to about 80,000 pesos. The expenses of the Spanish government in the Philippine Islands during 1620 were 850,734 pesos; the deficit, between the receipts and disbursements, of 256,812 pesos was made up by withdrawing that sum from the Mexican treasury.

By the beginning of the seventeeth century Spanish merchants had built up a lucrative export trade with Mexico and other parts of Spanish America. They desired a monopoly and during the entire seventeeth century and the larger portion of the eighteenth century the Spanish Crown, at the request of the exporters of Cadiz and Seville, issued a series of *cedulas,* or royal decrees, prohibiting trade between Manila and the Mexican port of Acapulco, or so limiting and imposing such restrictions on such trade as to amount to a virtual prohibition. Tomás de Comyn, a writer of that period, in his work "The State of the Philippine Islands," declares: "Scarcely will it be believed in the greater part of civilized Europe that a Spanish colony exists between Asia and America whose merchants are forbidden to avail themselves of their advantageous situation, and that as a special favor only are they allowed to send their effects to Mexico once a year, but under the following restrictions. . . ."

Thus it will be seen that it is no new experience for the Philippine Islands to be disappointed in their endeavor to get an American market for their surplus products and that in the late action, or non-action, of the United States Senate history but repeats itself. No one, however, believes that it will take the American people, as it took the Spanish Crown, two hundred years to right this wrong.

Late in the eighteenth century Spain adopted a more liberal policy toward the Philippine Islands and such measures were put into effect as soon resulted in the revival of their export trade not only to America but also to Europe and Asia. The relatively prosperous condition that ensued made possible the collection of larger sums as internal taxes

and the adoption of a more modern system of taxation. It soon became unnecessary for the viceroy of Mexico to draw on his cash box to help the Philippines to meet their budget of expenses. In 1782 the Government took over the monopoly of the tobacco produced in the Islands, and controlled the entire output of leaf tobacco and manufactured product until 1883 when the monopoly was abolished. Attempts to control the distillation of spirits by Government monopoly of the industry were made as early as 1712, but were abandoned from time to time. In 1787 a definite policy of Government control of the spirit business was adopted and prosecuted until 1862, in which year the monopoly was finally done away with, and two years later the manufacture and sale of all kinds of liquors was declared free. In 1834 the Government took over the monopoly of the sale of opium and in 1850 still further increased its revenue through the establishment of an official lottery, converting the profits derived from the sale of tickets to the insular treasury.

Meanwhile the rates of the head tax, or *cedula personal* as it had come to be known, had been increased and different classes of *cedulas* established, at rates graded from one and a half pesos to thirty-seven and a half pesos per annum. Chinese persons were taxed at the highest rate, as, indeed, when it came to classification for purpose of taxation, whether occupation, business, or what not, Chinese merchants were always put in the first class. Toward the end of the nineteenth century internal taxes on all kinds of industrial enterprises, on the coinage of money, on forest products and on the rentals of urban property were added. In 1817 the total internal tax collections for insular purposes were 1,346,472 pesos; at the time of the American occupation the internal revenues amounted annually to nearly 12,000,000 pesos, without including surtaxes, amounting to several millions more collected for municipal purposes. Of the total insular revenues over 9,000,000 pesos were paid out as salaries and less than 300,000 pesos were

devoted to the maintenance of pubic schools and to public works.

During the fiscal years 1896–97 the Spanish Government collected in the Philippine Islands internal taxes as follows:

1. Contract for the sale of opium, 576,000 pesos.

2. Government lottery, 1,000,000 pesos.

3. Mint charges for coinage of money, 200,000 pesos.

4. Tax on urban property, 140,280 pesos, representing 5 per cent. of rental values after deducting 25 per cent. of rental values for repairs to buildings.

5. Royalties on forestry products, 122,000 pesos.

6. Documentary stamp taxes, 870,000 pesos, imposed by royal decree of May 16, 1886, and included, besides receipt and other ordinary documentary stamp taxes, 100,000 pesos worth of postal stamps and 220,000 pesos worth of stamps affixed to telegraphic dispatches.

7. *Cedulas personales,* or capitation tax, 7,000,000 pesos. During the three centuries, or over, of the Spanish domination the head tax, originally levied as a tribute on the Indians, grew to be not only the most important source of revenue but even to be more important than all other sources combined. It was a direct tax and the average annual payment of each adult male, at the time of the American occupation, was about 5 pesos.

8. The *Industria* tax, on all kinds of commercial and manufacturing enterprises, trades, professions and occupations, 1,400,000 pesos. This tax was imposed by royal decree of June 19, 1890, and next to the *cedulas personales,* and the customs duties, was the most important source of insular revenue.

Of the above taxes the contract for the sale of opium, the government lottery and the mint charges for the coinage of money were suspended at the time of the American occupation; the tax on rentals of urban property was subsequently repealed by the Philippine Commission and a real estate tax assessed on the market value of agricultural holdings and city property was imposed. By various general orders of the Military Governors and acts of the Philip-

pine Commission during the first five years of the American occupation the *cedula personal* tax was reduced in amount from an average of 5 pesos per adult male to a straight tax of 1 peso, thus reducing the revenues from this source by more than 5,000,000 pesos per annum. And through the elimination of many documents subject to stamp taxes under the Spanish regime and radical reduction in the tax rates on other documents, the documentary stamp tax collections dropped from 870,000 pesos during the fiscal year 1896–97 to about 240,000 pesos during the fiscal year 1902–03. There was a slight increase in the collections from the *Industria* taxes and the royalties on forestry products during the fiscal year 1902–03 as compared with the collections during the fiscal year 1896–97. But the loss in revenue due to the decrease in the rate of the *cedula personal* tax greatly exceeded the increase in the other tax collections. The internal tax collections reached a total during the fiscal year 1896–97 of nearly 12,000,000 pesos; during the fiscal year 1902–03 they did not reach 4,500,000 pesos.

During the Spanish regime the internal revenue taxes accrued to the insular treasury and surtaxes were collected for the benefit of the provincial and municipal treasuries. By various general orders of the Military Governors and acts of the Philippine Commission, under the American administration, these surtaxes were abolished and the internal revenue collections accrued intact to the provincial and municipal treasuries. The real estate taxes imposed by the Philippine Commission also accrued to the provincial and municipal treasuries and for several years customs duties constituted the main, almost the only, support of the Insuar Government.

Under these circumstances the need for additional revenues for the benefit of the central government soon became apparent, and a system of internal revenue taxation modeled on the American plan naturally suggested itself to the insular administration. By the Spanish tax laws then in existence no adequate tax was being collected from

such legitimate objects for excise taxation as alcohol and tobacco products. But the prosperity of the Philippine people was at a low ebb and doubt prevailed as to their ability to contribute such sums as would justify the imposition of a new tax. The rinderpest which killed the work stock, the locusts which devoured such crops as were planted, a series of epidemics, and roving bands of robbers coming as a legacy of the war, all contributed to perpetuate a condition of agricultural and commercial depression. But all of these handicaps, serious as they undoubtedly were, were matters of secondary importance and the deplorable fact that the Philippine Islands had lost their old markets for their surplus products and had been given no new market loomed as the most threatening factor in the problem. The lost cattle might be replaced, the robbers suppressed, the epidemic and plagues eradicated and, if that were all to be done toward conquering adverse conditions, prosperity would soon return. But without foreign markets in which to sell some of their principal products the import trade of the Islands would soon become as insignificant as their export trade had already become and customs duties, the last resource for support of the insular government, would also disappear. The Philippine Government found itself confronted by a most serious condition of affairs. The continuance of the road and harbor work and of the splendid system of public schools was threatened because of lack of funds for their maintenance. If such tariff arrangements were not made with the United States as would admit of the entry of Philippine products into the American market, then the Islands must inevitably revert, gradually but surely, to the primitive condition they occupied during the first two centuries of Spanish domination, when Spain, in order to keep the Spanish-American market intact for exploitation by her home merchants, prohibited the exportation of Philippine products to other countries.

That the Philippine Commission was alive to the needs of the hour is in evidence in the recommendations made from time to time in their annual reports to the home gov-

ernment. On the occasion of his inauguration as first Civil Governor, on July 4, 1901, Secretary Taft said to the Filipino people.

> The people may reasonably entertain the hope that Congress will give them a tariff here suited to the best development of business in the Islands, and may infer from the liberal treatment accorded in its legislation to Porto Rican products imported into the United States that Philippine products will have equally favorable consideration.

At that time Porto Rican products entering the United States and American products entering Porto Rico were subject to 15 per cent. of the Dingley tariff rates—but even that modest burden was found to be too heavy and but little sugar, tobacco and cigars were exported from Porto Rico to the United States between 1898 and 1901. By a strange coincidence, on the very day that Governor Taft delivered his inaugural in Manila the Porto Rican Legislative Assembly met in special session in San Juan to decide whether or not the new internal taxes of that Island were yielding enough revenue to justify the recommendation to Washington that all customs restrictions on trade between the United States and Porto Rico should be finally eliminated. The recommendation was made and President McKinley, as empowered to do by Congress, issued a proclamation fixing July 25, 1901—the third anniversary of the American occupation of Porto Rico—as the day on and after which absolute free trade would obtain between the United States and Porto Rico. Since that time there has been a notable increase from year to year in the sugar, cigars and fruits sent from Porto Rico to the United States; notable from the Porto Rican view-point, because of sufficient importance to bring a fair degree of prosperity to that Island, but quite insignificant in the vast American market, as Porto Rican cigars and sugar were soon assimilated with the bulk of the home products—and forgotten.

With returning prosperity the Porto Rican people forgot their former opposition to their new internal revenue law, were able to consume, and did consume, more articles paying internal revenue taxes; were able to buy, and did buy,

more American goods as well as more goods imported from European countries and which still continued to pay full Dingley rates upon their entry into Porto Rico. Whatever revenue was lost through the razing of the customs barriers between the United States and Porto Rico was more than replaced by the increased internal revenue collections and by the increased customs collections on certain goods imported from Europe. Within a couple of years the Porto Rican Legislative Assembly increased, with little or no opposition, several of the internal revenue tax rates; yet when Dr. Jacob H. Hollander, first Treasurer of Porto Rico under civil government, presented in 1900 to the Legislative Assembly, the internal revenue law for consideration, the opposition to its enactment was almost unanimous—it was claimed that the tax rates were so high as to make them "impossible of collection." With the increase in its revenues the Porto Rican government has been able to continue its road work, which has done and is doing so much to develop the agricultural resources of that Island, and has also been able to construct additional school buildings and to greatly extend and perfect its system of public instruction.

These were the benefits which, in his inaugural as Civil Governor of the Philippines, Secretary Taft foresaw foı Porto Rico, as a result of unrestricted trade with the United States, and which he and his associates on the Philippine Commission have labored assiduously to secure for these Islands—so far, at east, in vain. In his report for 1902 to the Philippine Commission, Commissioner Ide, in his administrative capacity as Secretary of Finance and Justice, says:

> The rates now imposed by law upon imports into the United States from the Philippine Islands are still practically prohibitive and afford no encouragement to the industries of these Islands.

And again in his report for 1903 Commissioner Ide says:

> The only real effective manner in which the Congress of the United States can aid the insular revenues and aid the Filipino people by tariff legislation, is by an entire removal of or a great reduction in

the duties imposed in the United States upon products of the Philippine Islands imported therein, and a repeal of that portion of the act of Congress which provides for a refund from the Philippine revenues of amounts collected in the islands as export duties on products shipped to the United States and there entered free of duty. The market thus opened to the people of these islands would give a greatly needed stimulus to industry here, and thereby largely increase the producing capacity of the people and their ability to live in a better manner, to pay a sufficient amount of taxes to carry on the government properly, and to buy the products of the manufacturers of the United States in greater measure. The two industries that need this help and consideration more than any others are the sugar and tobacco interests. . . . This subject is not discussed at length in this report, because it is understood that it will be presented more fully in the report of the civil governor to the Commission, but the discussion is entirely pertinent and vital to the question of insular revenues.

From the report of the Philippine Commission to the Secretary of War, for 1904, at which time Civil Governor Luke E. Wright was President of the Commission, the following excerpts are taken:

The taxation imposed by the Dingley tariff upon sugar and tobacco imported into the United States is very heavy, and is prohibitive so far as concerns the Philippine Islands. The civil governor in his last annual report to the Commission pointed out the languishing state of both these industries and explained that owing to the loss of their work animals by rinderpest and the damage done to their crops by locusts the people were much discouraged and were barely able to cultivate their estates. He also pointed out that their foreign market was exceedingly restricted and that prices were low. . . . Aside from being a measure of simple justice, nothing which Congress could do would have so tremendous a moral effect upon the people of the islands as to permit their sugar and tobacco to enter the United States without the imposition of any duty, or with the imposition at most of a low duty only. It is difficult for them to appreciate the soundness of the reasons which give this benefaction to Hawaii and to Porto Rico and refuse it to them.

. . . .

We desire to call attention to the injustice effected upon the revenues of the islands by section 2 of the act of Congress approved March 8, 1902, which provides that the Philippine government shall refund all export duties imposed upon articles exported from the

islands into and consumed in the United States. Under the provisions of this section there has been collected in the Philippine Islands since its enactment down to the close of the fiscal year 1904 the sum of $1,060,460.20 United States currency, which is refundable. These refundable duties are principally upon hemp exportations to the United States, and are in effect a gift of that amount to the manufacturers of the United States who use hemp in their operations, and whether so intended or not it is manifestly a discrimination in favor of our manufacturers as against those of foreign countries. No good reason is perceived why this bounty to American manufacturers should be extracted from the treasury of the Philippine Islands, and it is respectfully submitted that the law authorizing it should be repealed.

But the Congress of the United States postponed from session to session action along the lines recommended by the Philippine Commission. With a deficit threatening the insular treasury it was decided to enact an internal revenue law for the Philippine Islands, in the hope that after it was in successful operation the same measure of justice that had been extended to Porto Rico, through the removal of the customs duties on its exports to the United States, might also be extended to the Philippines. Discussing the subject of inadequate insular revenues Commissioner Ide, in his annual report for 1902, says:

A reasonable system of internal-revenue taxes by which large industries, corporations, and the manufacturers of liquors, tobaccos, and cigars contribute a reasonable sum for the protection which they receive from the government, and for the franchises that are secured to them, ought to provide a material addition to the available resources and to prevent further deficits.

Accordingly the preparation of an internal revenue bill devolved upon Commissioner Ide, as Secretary of Finance and Justice, and the history of its preparation, discussion, enactment and enforcement is contained in the succeeding pages of this article.

For many years commerce within the Philippine Islands had been cursed by a heterogenous mixture of silver Spanish-Filipino and Mexican pesos, together with silver and copper coins from many neighboring countries and colonies, and even hammered copper pieces used by the

mountain tribes. None of these coins were on a gold basis. They constituted the exchange media and they fluctuated so violently in value as to convert the most formal business transaction into a mere gamble, and made the audit of tax collections—figured at the official rate obtaining at the time each particular coin was taken in as a tax collection—almost as difficult and expensive an undertaking as the actual collection of the taxes themselves.

In Porto Rico the transition from a siver to a gold basis was accomplished with little difficulty. About 5,000,000 pesos worth of silver and copper pieces, mostly Spanish provincial coins, supplied the commercial needs. One of the first acts of the American Military Governor of that Island was to fix the value of the silver peso at sixty cents gold. There the rate was held and late in 1900 the Washington Government sent to Porto Rico about $3,000,000, American money, and the 5,000,000 pesos of provincial coins were promptly redeemed and sent to Washington. Some difficulty was at first experienced due to contraction, and as a result of merchants and others arbitrarily increasing the value of the goods to the number of dollars and cents, American money, that they had previously received for similar goods in provincial pesos and centavos. With the increase in the export over the import trade of the Island this difficulty soon disappeared.

In the Philippine Islands the change to a non-fluctuating standard was not so easily accomplished as it was in Porto Rico. There was grave danger, among other dangers, of too great a contraction if American money was introduced in the Philippines to replace the local currency as was done in Porto Rico. After careful consideration the problem was solved through the establishment of a gold standard with a theoretical gold peso, similar to the theoretical gold yen of Japan, and the coinage of a silver peso equal in value to exactly fifty cents of United States money. This plan was carefully designed and faithfully executed. The redemption of the mass of local coins then in circulation was begun in 1904 and completed early in 1905.

For nearly two years the new Philippine Currency has satisfactorily supplied the needs of commerce in the Islands, and the element of speculation in all kinds of business ventures, in so far as such speculation was caused by the instability of the old exchange media, has been entirely eliminated. Incidentally the operation of collecting taxes and accounting for collections, has been greatly simplified. Through the adoption of the new Philippine Currency, at the time it was adopted, there was removed one of the main difficulties in the thorny path along which the new internal revenue law was destined to travel.

In subsequent reference to money values in this article the words " peso " and " centavo " will be understood as meaning the Philippino peso and centavo, equal in value to exactly fifty cents and one-half cent, respectively, of United States money.

II.

The New Law.

The original draft of the existing internal revenue law was prepared in the United States during the months of June and July, 1903, by the then Secretary of Finance and Justice of the Philippine Islands, now Governor-General, Henry C. Ide, assisted by the present writer, who was charged with the delivery of the proposed act to the Philippine Commission in Manila, which he did in the month of August, 1903. During the following month of September Secretary Ide returned to Manila from the United States and during the succeeding seven months a careful study was made of the then existing Spanish tax laws and of industrial conditions and methods and importance of the manufacturing industries.

With the additional knowledge thus obtained on the ground such modifications were made in the original draft of the proposed act as seemed to be necessary to prevent serious economic friction, to avoid harassing merchants and manufacturers, and to provide such administrative machinery as would fit in with the somewhat unusual methods obtaining in the Philippine Islands in commercial transactions.

The tax rates were fixed as high as it was believed the articles taxed could stand without too greatly reducing their consumption. Additional sections were prepared, and incorporated in the proposed act, imposing taxes on such legitimate sources of excise taxation as were not considered when the original draft was prepared. It was believed that the Philippine Commission would prefer to have presented to it a scheme of taxation embracing all possible sources of revenue in order that it might select therefrom such articles, industries, trades and occupations as, in view of local economic conditions, it might deem proper objects of

excise taxation. In any event it was deemed expedient that the internal revenue law, as finally passed, should include all of the objects thereafter subject to taxation, that all of the old Spanish taxes should be abrogated in one general repealing clause, so that in future merchants, manufacturers and professional men would be able to find in one law all of the internal revenue taxes imposed by statute, and not be obliged, as they had been in the past, to search through a multitude of laws.

Not until all of the pros and cons of each of the taxes in the proposed act had been carefully weighed did the Philippine Commission take it up for formal discussion with a view to its enactment. The bill in its final form was translated into Spanish and several thousand copies, English and Spanish text, were printed and distributed to the various chambers of commerce, to merchants and manufacturers, and to all who were interested enough in its contents to request a copy. The text of the bill was also published in the local periodicals. The internal revenue law was considered an important piece of legislation and, following an established precedent in such cases, the Commission set a day for a public discussion of the proposed law and all interested were invited, by announcement in the daily papers, to attend the public session and to join in the debate before the Commission.

On April 6, 1904, the day set, all of the leading distillers, tobacco manufacturers, merchants, bankers, insurance agents and other persons of Manila whose interests were affected by the proposed legislation, appeared, most of them in person, and all represented by counsel, before the Commission. Merchants and manufacturers of all nationalities, largely English, German, Spanish, Chinese and Japanese were in attendance; the Consul General of China and the Consul of Japan were present in the interest of subjects of those two Empires, many of whom are engaged in important commercial and manufacturing enterprises in the Philippine Islands. Political parties had their spokesmen, and representative manufacturers and merchants had journeyed from

the provinces to Manila for the purpose of joining in the discussion.

Commissioner Ide introduced the proposed act and explained the need for, and benefits to be expected from, its passage. It developed, however, that the proposed measure had been weighed in advance, and had been found wanting, by those whose interests it affected. During several days, at morning and afternoon sessions, the Philippine Commission heard debates in which no one had a good word to say for the bill. The tenor of the remarks was that the measure was in principle rank economic heresy and if enacted would in practice result in an iniquitous confiscation of vested rights. Criticism of every detail of the bill was permitted, in fact invited, by the Commission. All of the oral arguments were taken down verbatim and in addition a mass of written memorials and protests were filed with the recorder of the Commission for further consideration.

Not until the last protest had been uttered, or filed, did the President of the Commission close the public hearings. The Commission then adjourned to the summer capital in the mountains of Benguet and there, far from the turmoil left behind at sea level in Manila, the bill was taken up section by section and considered in connection with each argument presented by the opposition—all of which the Commission had the recorder read. Announcement was made that further protests would be received and considered and for over two weeks protests and arguments against the proposed bill continued to arrive from Manila. Many of the arguments advanced against the bill contained valuable information and suggestions, of which the Commission availed itself in the amendments made to the original draft. Other arguments were so evidently based on ignorance of the provisions of the proposed law and on an unreasoning fear of its effects, that they were discarded. Thus it was recommended that the imposition of internal revenue taxes be postponed indefinitely because the burden would be more than the already languishing liquor industry could survive, and that neither should such taxes be imposed on the

tobacco industry because that would mean the ruination of the only thriving industry in the Islands.

The internal taxes to which the people of the Philippine Islands had become accustomed in the past, had nearly all been taxes of direct payment. It was not therefore a matter for surprise that they should fail to grasp the meaning of indirect taxes such as were contained in the proposed law. The shifting of tax payments they could not understand,— it was to their way of reasoning a new and dangerous departure. Thus responsible manufacturers argued with the Commission, in all sincerity, that if they were made to pay, as the proposed law provided, the taxes on the output of their manufactories, that such tax payments, based on what their normal output had been in the past, would represent in the course of a year a sum several times greater than the value of their entire capital stock, buildings and installation of their plant; that, therefore, the proposed law was monstrous, inasmuch as it would inevitably result in their absolute bankruptcy within a few weeks, or at most months after its enactment.

The few who came to understand that the consumers were the ones who really paid the tax, still remained hostile. They claimed that the increase in price, due to the tax, would put the poor man's cigarette and *vino*—a popular native liquor—entirely beyond his reach. Cigarettes and *vino*, they claimed, were in the Philippines not luxuries but, on the contrary, absolute necessities. This position they maintained in all seriousness. They claimed that alcohol was an important food product and a certified copy of an analysis and opinion of a French chemist was presented to the Philippine Commission in which it was stated that all food taken into the human stomach was there converted into alcohol as a necessary part of the process of assimilation.

The Philippine Commission remained at the summer capital over two months and a large portion of that time was devoted to a consideration of the proposed law. The present writer presented to the Commission a report on

his experience in Porto Rico in the enforcement of the internal revenue law of that Island, with which, as chief of the bureau of internal revenue, he was charged for over two years. It was shown that there the hostility to the new taxes was also well nigh universal at the time they were first proposed but that within a year or so after they had been put in operation they were accepted as constituting a wise and equitable scheme for internal taxation.

Before returning to Manila the Commission amended the proposed law by reductions in most of the tax rates, by simplifying several of the regulations for the administration of the law, by eliminating certain penal provisions to which specific objections had been made, and by removing from the law, in toto, the taxes proposed on corporations and on legacies and inheritances. It was believed that to tax corporations, as such, might discourage investors and keep out of the Islands capital urgently needed for their development; corporations were however taxed in other portions of the law in the same manner as private individuals. The proposed inheritance tax was similar to the more modern systems lately adopted by several of the States, providing liberal exemptions to next of kin and a graduated rate of tax increasing as the propinquity of relationship decreased and the amount of the inheritance increased. Under ordinary conditions this tax is most equitable and imposes scarcely any burden. Due to the fact that in the Philippine Islands estates of decedents consist largely of lands and city property and that it was not the general custom to partition such estates, and also for other weighty reasons, the Philippine Commission wisely decided that a tax on inheritances would impose an undue burden and it was eliminated from the proposed law.

As amended the act was again printed in English and Spanish, again widely distributed and all interested were again invited to a public discussion of the amended draft to be held before the Commission in Manila late in the month of June. As a result of this second discussion a few minor amendments were made and the "Internal

Revenue Law of Nineteen Hundred and Four" was enacted on July the second of that year. The taxes on the manufacture and sale of alcohol and tobacco products and matches, on banks and on insurance companies were made effective on August 1, 1904; the remaining taxes on January 1, 1905.

Perhaps under no scheme of government could more ample opportunities be provided for the people to appear before the legislators, and make clear their wishes, than were the opportunities which the Commission allowed the taxpayers of the Philippine Islands when the internal revenue law was under consideration. Notwithstanding this the hostility to the law persisted for over a year after its enactment and determined, but futile, efforts were made to have it repealed.

Spain and China are two of the most conservative nations of the earth, and men of those two nationalities own the bulk of the manufacturing and mercantile concerns in the Philippines. Their interests were therefore vitally affected by the new internal taxes. The advantages of the new system of taxation were explained to these representative business men, but they remained skeptical. The old, tried and proved, is still a live force in Spanish character and often determines a line of conduct. They did not hesitate to condemn the evils of the old nor fail to appreciate the benefits of the new tax law. But all things considered they still were of the opinion that, "*Mas vale diablo por conocido que angel por conocer,*" the nearest English equivalent of which would perhaps be—"Better to suffer a known devil than to trust an unknown angel."

III.

Results.

Since its enactment "The Internal Revenue Law of Nineteen Hundred and Four" has been amended only in such minor details as administrative experience dictated. The following is a condensation of the tax rates as provided and being collected at this time:

Annual License Taxes.

Brewers	200 pesos.
Distillers	200 pesos.
Distillers whose daily output does not exceed 4 hectoliters	48 pesos.
Rectifiers of distilled spirits	200 pesos.
Retail liquor dealers	48 pesos.
Retail *vino* dealers	8 pesos.
Wholesale liquor dealers	200 pesos.
Retail dealers in fermented liquors	40 pesos.
Wholesale dealers in fermented liquors	60 pesos.
Dealers in manufactured tobacco	8 pesos.
Manufacturers of tobacco	20 pesos.
Manufacturers of cigars and cigarettes	20 pesos.
Peddlers of manufactured tobacco, or distilled, manufactured or fermented spirits	16 to 80 pesos.

Alcohol and Tobacco Products.

On each liter of proof spirits	20 centavos.
After January 1, 1907, the above tax	25 centavos.
On each gauge liter of beer, lager beer, ale, porter and other fermented liquor	4 centavos.
On each kilogram of snuff	32 centavos.
On each kilogram of chewing tobacco	48 centavos.
On each kilogram of smoking tobacco	48 centavos.

Cigars, as follows:

When wholesale price is 20 pesos per thousand or less, each thousand	2 pesos.

When wholesale price is 50 pesos or more than 20 pesos per thousand, each thousand	4 pesos.
When wholesale price exceeds 50 pesos per thousand, each thousand	6 pesos.

Cigarettes, as follows:

Weighing not more than 2 kilograms per thousand, each thousand	67 centavos.
After January 1, 1907, the above tax	1 peso.
Weighing more than 2 kilograms per thousand, each thousand	2 pesos.
On each gross of boxes of matches of not more than 120 sticks to a box	40 centavos.

Over 120 sticks to a box, a proportionate additional tax. Imported matches pay the same tax as matches of domestic manufacture.

Banks and Bankers.

One eighteenth of one per cent. each month on average deposits.

One twenty-fourth of one per cent. each month on capital employed.

One twelfth of one per cent. each month on average amount of circulation.

An additional tax of one per cent. each month on average amount of circulation issued beyond the amount of paid in capital.

Documentary Stamp Taxes.

Bonds, debentures, and certificates of indebtedness, on each 200 pesos, or fractional part thereof, of face value	20 centavos.
Certificates of stock, whether on organization or reorganization, on each 200 pesos, or fractional part thereof, of face value	20 centavos.
Sales, agreements to sell, memoranda of sales, or deliveries, or transfer of shares of stock, on each 200 pesos or fractional part thereof, of face value.	4 centavos.
Certificates of profit, or certificates showing interest in the property or accumulations, on each 200 pesos or fractional part thereof, of face value....	2 centavos.
Bank checks, drafts or certificates of deposit, not drawing interest, and payable at sight or on demand	2 centavos.

Bills of exchange, drawn and payable within the Philippine Islands, on each 200 pesos, or fractional part thereof, of face value	2 centavos.
Drafts drawing interest, and payable otherwise than at sight or on demand, on each 200 pesos or fractional part thereof, of face value	2 centavos.
Promissory notes, other than issues for circulation, or any renewal thereof, on each 200 pesos, or fractional part thereof, of face value...............	2 centavos.
Certificates of deposits drawing interest, or order of payment of any sum of money otherwise than at sight or on demand, on each 200 pesos, or fractional part thereof, of face value	2 centavos.
Foreign bills of exchange, drawn in but payable out of the Philippine Islands, on each 200 pesos, or fractional part thereof, of face value...........	4 centavos.
Letters of credit, including orders by telegraph, express company and steamship companies, drawn in but payable out of the Philippine Islands, on each 200 pesos or fractional part thereof, of face value.	4 centavos.
Insurance policies, life, on each 200 pesos, or fractional part thereof, of face value	10 centavos.
Insurance policies upon property, including rents or profits, against peril by sea or inland waters, fire or lightning, on each 4 pesos, or fractional part thereof, of amount of premium charged........	2 centavos.
Insurance policies, or bond of indemnity for loss or damage from any cause (except life, marine, inland and fire insurance) and all undertakings accompanied by guarantee obligations, on each 4 pesos, or fractional part thereof, of premium charged	2 centavos.
Policies of annuities, on each 200 pesos or fractional part of the capital of the annuity, or should the capital be unknown, then on each 200 pesos or fractional part thereof of 33⅓ times the annual income	10 centavos.
Each bond of indemnity, and every other bond not mentioned	50 centavos.
Certificates of damage, or any other certificate or document issued by captains of the port or marine surveyors	20 centavos.
Certificates of notaries public.....................	20 centavos.
Certificates of any description required by law and not otherwise specified	20 centavos.

Receipts or memoranda for money paid, when the amount exceeds 30 pesos	4 centavos.
Warehouse receipts for goods held in storage........	20 centavos.
Bills of lading, for foreign shipment, each set.......	10 centavos.
Bills of lading, for local shipment, when value of goods exceeds 5 pesos, each copy of each set..........	2 centavos.
Tickets, to United States or foreign ports, when passage cost does not exceed 60 pesos..............	1 peso.
When passage cost exceeds 60 pesos, but does not exceed 120 pesos	2 pesos.
When passage cost exceeds 120 pesos................	3 pesos.
Power of attorney or proxy for voting at an election for officers of a company, etc...................	20 centavos.
Power of attorney to sell or rent or collect rent on real estate, or sell stocks, bonds, or securities, or collect dividends or perform any acts not elsewhere specified	20 centavos.
Lease or rent of any real estate, tenement or part thereof, for period of 1 year or less............	20 centavos.
For period of time more than 1 year, and not more than 3 years	50 centavos.
For period of time more than 3 years...............	1 peso.
Mortgages, secured by either real or personal property, when the amount for which the mortgage is given is not less than 1000 pesos nor more than 3000 pesos	50 centavos.
And on each 3000 pesos, or fractional part thereof, in excess of the first 3000 pesos, an additional......	50 centavos.
Deeds of real estate, when true value received is more than 200 pesos, and not more than 1000 pesos....	50 centavos.
And for each additional 1000 pesos, or fractional part thereof, an additional	50 centavos.
Charter party, of any vessel, when the registered gross tonnage is not more than 300 tons	6 pesos.
When the registered gross tonnage is more than 300 tons, and not over 600 tons	10 pesos.
When the registered gross tonnage is more than 600 tons	20 pesos.

Cedula Personal Tax.

On and after the first Monday in January and prior to the last Saturday in April of each year......	1 peso.
On and after the last Saturday in April and prior to the first Monday in January, next following..	2 pesos.
Persons arriving in the Philippine Islands after the last Saturday in April, and upon application within 20 days after arrival	1 peso.

Insurance Companies.

An annual tax of one per cent. on all premiums of insurance companies or agencies thereof doing business in the Philippine Islands.

Upon all reinsurance by a company which has already effected the insurance and paid the tax, one half of one per cent.

Tax on Forest Products.

The various provinces in the Philippine Islands are divided into classes A and B, and the various native trees are divided into four groups.

On each cubic meter of timber which may be cut in any public forest or forest reserve in any of the provinces of the Philippine Islands for domestic sale or consumption, or for export, the following taxes are imposed:

On all timber included in the first group cut in any province included in class A....................	5 pesos.
When cut in any province included in class B, 2 pesos and	50 centavos.
On all timber included in the second group cut in any province included in class A....................	3 pesos.
When cut in any province included in class B, 1 peso and	50 centavos.
On all timber included in the third group cut in any province included in class A........1 peso and	50 centavos.
When cut in any province included in class B.......	1 peso.
On all timber included in the fourth group, and on all non-enumerated timber cut in any province included in class A	1 peso.
When cut in any province included in class B.......	50 centavos.

When timber cut in any province included in class A has been selected for felling by duly authorized forest officials, the rates on such timber shall be only such as are fixed in this section on timber cut in provinces included in class B.

The taxes imposed on ebony and camagon are charged on said timber with the sapwood still attached, and the number of cubic meters in each piece of timber so measured includes the sapwood attached to the same; and when ebony or camagon timber from which the sapwood has been stripped is presented for measurement and appraisal, the following taxes are imposed:

On each cubic meter of ebony cut in any province included in class A ....13 pesos and	50 centavos.
When cut in any province included in class B.......	6 pesos.
On each cubic meter of camagon cut in any province included in class A	8 pesos.
When cut in any province included in class B, 4 pesos and	50 centavos.
On all firewood consisting of *rajas* from sixty centimeters to one and one-half meters in length, and from seven centimeters to fifteen centimeters in diameter, for each one thousand	1 peso.
On all firewood consisting of pieces of timber less than sixty centimeters in length and less than seven centimeters in diameter, per cubic meter........	10 centavos.
On all gums and resins and other forest products gathered or removed from any province, on the actual market value thereof	10 per cent.

Mining Concessions.

On each valid perfected mining concession granted prior to April eleventh, eighteen hundred and ninety-nine, as follows:	
On each claim containing an area of 60,000 square meters, an annual license tax of...............	100 pesos.
And at the same rate proportionately on each claim containing an area in excess of, or less than, 60,000 square meters.	
On the gross output of each mine an ad valorem tax equal to three per cent. of the actual market value of such output.	

Tax on Business, Manufacture and Occupation.

Each merchant and manufacturer shall on the first day of January, 1905, or on the date thereafter on which such merchant or manufacturer engages in any mercantile or manufacturing pursuits, either on his own account or on commission pay a tax of	2 pesos.
And shall at the end of each quarter thereafter pay a tax at the rate of one third of one per cent. on the gross value in money of all goods, wares and merchandise sold, bartered or exchanged in the Philippine Islands.	
Common carriers and livery stable keepers shall on the first day of January, 1905, or on the date thereafter on which engaging in such business, pay a tax of	2 pesos.

And shall at the end of each quarter thereafter pay a tax of one per cent. of the gross receipts from such business.

Annual occupation license taxes, as follows:

Stockbrokers, real estate brokers, custom house brokers, and merchandise brokers, each	80 pesos.
Pawnbrokers	200 pesos.
Theaters, museums, cockpits, concert halls, and circuses, each	200 pesos.
Billiard rooms, each table	10 pesos.
Lawyers, medical practitioners, civil engineers, mechanical engineers, mining engineers, land surveyors, and architects, each	50 pesos.
Dental surgeons and procuradores judiciales, each	40 pesos.
Undergraduates in medicine	10 pesos.
Chiropodists, manicurists, photographers, lithographers, engravers, and appraisers or connoisseurs of products, each	40 pesos.
Veterinarians, farriers, and proprietors of shops for repair of bicycles and vehicles, each	20 pesos.
Owners of race tracks in Manila, on each day races are run	60 pesos.
In the provinces not less than	20 pesos.

Exemptions from the payment of the various taxes imposed are provided in liberal measure in the law. All agricultural products of the Philippines are exempted from tax payments by the producer or the exporter. The Islands are dotted with small provision booths, the annual sales of which do not exceed 500 pesos in value, and are filled with small artisans, boatmen, owners of carabao carts engaged in freighting, and other persons such as tinsmiths, bakers, shoemakers, and others plying modest vocations; all of these are now exempted from the occupation and business license taxes they formerly paid under the Spanish *Industria* tax law. The Filipino who neither smokes nor drinks now escapes practically all internal tax payments, excepting the *cedula personal,* or capitation tax, and that tax has been reduced from an average of 5 pesos per annum, the rate during the Spanish regime, to 1 peso, the rate provided in the internal revenue law.

Under the *Industria* tax law merchants and manufacturers

paid annual license taxes, in specific amounts, quarterly in advance. The tax was assessed on the character of the business done—the small merchant dealing in a certain line of goods with a limited trade paid the same amount of tax as was paid by the merchant in the same line with a big stock and a big business. Neither the value of the merchant's stock, nor the extent of his business, nor the amount of his profits, were used at all as a basis for assessing the old *Industria* tax. All merchants in a given line of business paid the same tax. The new internal revenue law repeals this inequitable system; it imposes a percentage tax on sales payable at the end of each quarter after the merchant has sold his wares and is best able to pay his taxes. The tax rate is 1 peso tax on each 300 pesos worth of sales; the small merchant pays a small amount as taxes and his tax payments increase in direct proportion to the increase in his business. Under the *Industria* tax law the merchant with modest capital was often so burdened with taxes as to make it difficult, or impossible, for him to save enough from his profits to extend his business.

Persons who manufacture cigars or cigarettes for their own consumption, who gather forest products for use in their homes or to build their houses or boats, or who engage in the sale of fish, meat, vegetables, and similar food products, in market places, are now all exempted from internal tax payments, regardless of the amount of their sales or of the quantity of the articles used or consumed. Agriculturists are exempted from the payment of taxes on their crops. Receipts for sums in any amount less than 30 pesos are exempt from documentary stamp taxes, as are a multitude of other documents, formerly subject to tax and the stamping of which often caused vexatious delays and unduly harassed business and professional men. Banks loaning their funds exclusively to agriculturists on real estate security are exempt from the tax imposed on the capital employed by other banks doing a general banking business. Premiums received for purely co-operative insurance are

also exempted from taxation. Doctors whose professional services are devoted exclusively to charitable, religious, educational, or eleemosynary institutions are exempted from occupation tax payments.

The most radical change made by the new internal revenue law has consisted in the shifting of the bulk of the taxes on industries from articles of necessary consumption to articles of luxurious, or optional, consumption, and in the entire exemptions from insular taxation which are given to the multitude of petty trades and callings followed by the very poor, and to the small stores and provision booths scattered throughout the Islands. The old industrial tax law imposed a comparatively high rate of license tax on retail dealers in rice and other provisions and an infinitesimal tax on the manufacture and sale of tobacco and alcohol products; the new law exempts agriculturists, exporters, and very small dealers in commodities and imposes a percentage tax on the value of the sales made by the larger dealers, and also imposes an adequate tax on the manufacture and sale of alcohol and tobacco products.

The new internal revenue law also provides that the revenues from the cedula personal taxes shall be apportioned one half to the province and one half to the municipality in which they are collected; that certain license taxes on theaters, circuses, etc., shall accrue intact to the treasuries of the municipalities in which they are collected, and that of the remaining revenues 10 per cent. shall be apportioned to the various provinces and 15 per cent. to the various municipalities, in the proportion of their respective populations, and that the remaining 75 per cent. shall constitute insular revenues. Of the 15 per cent. of the general revenues accruing to the various municipal treasuries, under this provision of law, one third is set aside to be expended exclusively in the maintenance of free public primary schools.

It also provides for the organization of the bureau of internal revenue within the department of finance and justice, for the appointment by the governor-general of a collector

of internal revenue as chief of the bureau, for the appointment by the collector, with the approval of the secretary of finance and justice, of a field inspection force of internal-revenue agents, gaugers, and storekeepers, and for the assessment and collection of the various taxes by the city assessor and collector of Manila and by the various provincial treasurers and their deputies under the general superintendence of the collector of internal revenue.

The administrative machinery, provided for the collection of the various taxes and for the prevention of frauds on the revenues, is similar in all essentials to the system installed in Porto Rico in 1901 for the enforcement of the internal revenue law of that Island. The successful operation of that system was fully described at the time by Dr. Jacob H. Hollander, then treasurer of Porto Rico.[1] Therefore, but the briefest reference will be made to the system at this time.

Internal revenue stamps of thirteen denominative values, pesos and centavos, are serially numbered, at each end, in the bureau of internal revenue and issued to the assessor and collector for the City of Manila and to the forty provincial treasurers and, by them, to their six hundred deputies for sale to taxpayers, for use in the payment of taxes. Persons subject to license taxes purchase stamps quarterly and affix them in one of the four blank spaces provided on the face of each license; at the end of the year all used licenses with the stamps attached are surrendered to internal revenue officers and returned to the bureau of internal revenue for audit and file. Manufacturers of cigars, cigarettes, liquors and other objects subject to tax, fill in and send along with each shipment of goods an official invoice sheet to which stamps, in payment of the tax on the goods described in the invoice, have been affixed and canceled. The stamps are so affixed to these invoices that when the invoice is removed from its stub, which remains in the possession of the manufacturer, one half of each stamp remains

[1] "Excise Taxation in Porto Rico," in The Quarterly Journal of Economics, February, 1902.

attached to the stub and the other half goes forward, attached to the invoice, to be delivered together with the goods to the consignee. Each package of goods is branded with the assessment number of the manufacturer and the number of the official invoice which accompanies it in transit. By these means it is possible for the manufacturer, the carrier of the goods and the person to whom they are consigned to prove at any time, by the production of either the stamped invoice or stamped stub, that the taxes on any particular shipment of goods have been paid.

Merchants and other persons receiving goods subject to tax are required to keep the stamped invoices they receive from the manufacturers until called for by internal revenue agents, deputy provincial treasurers or their assistants. All internal revenue officers are required to supervise the operations of manufacturers in their respective districts, to check goods in transit and in the possession of merchants and others at the time they gather up the stamped invoices. All stamped invoice sheets are returned to the bureau of internal revenue for audit and file. Every taxpayer, whether merchant, manufacturer, gatherer of forest products, etc., is given a distinctive assessment number and is known officially by that number. The serial number of each stamp purchased by a taxpayer is credited to his assessment number, and he is allowed to use only the stamps so purchased and no others. When the stamped licenses and invoices, having served their purpose, are returned to the bureau of internal revenue for file, the serial numbers of the various stamps are checked against the assessment numbers of the taxpayers using them for the payment of taxes. By this means the reuse of stamps is effectually prevented, inasmuch as stamps once used are canceled, cut in two, and both portions removed from the possession of persons who might otherwise be tempted to reuse them. As will be seen, this system also makes it impossible for counterfeit stamps to go undetected. If an unnumbered stamp is used in the payment of a tax it is in itself an evidence of fraud. If the counterfeiter puts serial

numbers on the spurious stamps issued by him such numbers will either be duplicates of official serial numbers already placed in the bureau of internal revenue on stamps already issued, or the numbers on the spurious stamps will be higher than the numbers yet reached in the official record.

The question as to whether the United States system of affixing stamps to boxes of cigars, packages of cigarettes, bottles and demijohns of liquors, etc., should be adopted in the Philippine Islands was carefully considered, and it was decided that such system was not locally applicable.

Charges are constantly being preferred in the Manila courts by manufacturers who claim that their trade marks are being falsified or imitated and that good quality cigars and other articles manufactured by them are removed from the boxes or other receptacles in which they are packed and inferior goods substituted. Some of these frauds are difficult of detection because of the ingenious manner in which they are contrived. The bottom of a cigar box is removed, the good cigars taken out, poor cigars put in their place, and the bottom of the box carefully returned to its place so as to show no signs of removal. A hole is drilled in the bottom of a bottle, the good liquor extracted by means of a double tube apparatus, poor liquor introduced, and the hole covered with a gob of melted glass.

Under these circumstances the futility of attempting to protect the revenues by the affixture of stamps across the lids of boxes, or corks of bottles, will be understood. Besides under the system adopted manufacturers find it a simple and inexpensive undertaking to affix a few stamps of high denominative values to an invoice for a large shipment of goods; if they had to put a separate stamp on each individual package of cigarettes, box of matches, etc., their operating expenses would be materially increased.

Upon the passage of the internal revenue law, on July 2, 1904, the civil governor, upon the recommendation of the Philippine Commission, appointed the present writer col-

lector of internal revenues for the Philippine Islands and he has discharged the duties of that office since that date. It is, of course, impossible within the scope of this paper, to present more than a mere outline of the administrative difficulties encountered and overcome. Much opposition to the enforcement of the law was anticipated and prepared for in advance. It was believed at the start that the campaign would be largely one of education, and in the sequel that belief has been justified. As the law and its operation came to be more fully understood opposition vanished and the people not only became reconciled, but many, who had formerly opposed it, became its most ardent supporters. For over a year there has been little opposition either to the law or to the methods adopted for its enforcement.

As this article was being prepared Governor-General Ide resigned the duties of his office to his successor, General Smith. In his inaugural, recounting what America has accomplished in the Philippines, Governor-General Smith says:

> She destroyed without hesitation a wrong system of internal taxation which imposed upon the poor almost the entire charges of government, and for it she substituted a modern system of internal revenue which so distributes the load that every citizen is compelled to bear his fair share of the governmental burdens.

And this statement has remained unchallenged by any of the former opponents of the internal revenue law.

Still the original opposition to the law was not so easily overcome. The Manila press, that part which is published in Spanish, was at the start almost a unit in opposition. Self-seeking demagogues, as well as well-meaning but mistaken persons who spoke from conviction, stirred up strife and spread dismay among the more ignorant classes. Without waiting to experience the effects of the law merchants and manufacturers in some instances closed their places of business. Referring to this hostility, in a report made to the secretary of finance and justice, when the law had been two months in operation, the collector of internal revenue says:

Of course the opposition to this law at this time can retard, but it can not prevent, its final success. The only regrettable feature to this opposition is that the smaller and more ignorant manufacturers of *vino* cigars and cigarettes have been and are being educated to an attitude of unreasoning hostility to this law. Therefore whenever the provisions of the law are strictly enforced, illicit stills and cigar and cigarette factories will begin to operate behind closed doors and in inaccessible regions. Long after the larger manufacturers shall have recognized, with satisfaction, that their opposition to this tax was a mistake and have settled down to the new order of things, they will have to suffer the illegal competition waged by these "moonshiners" and illicit manufacturers of all kinds.

By January 1, 1905, when the license taxes became operative, the situation had become acute and had it not been for the precautions taken by several of the provincial governors, and the sensible advice they gave the people, serious trouble might have resulted. But a small minority of the Filipinos can either read or write and the insular administration therefore found it a difficult task to explain to the mass of the people what the internal revenue law really provided. On January 17, 1905, the collector of internal revenue issued a "Notice to the Public" from which the following excerpts are taken:

Great misapprehension prevails in the minds of the poor and illiterate classes in these Islands as to the provisions of the "Internal Revenue Law of 1904." Fears persist notwithstanding the fact that several thousand copies of the Internal Revenue Law in both the English and Spanish languages have been distributed to the remotest corners of these Islands.

Certain individuals, who should be better informed, have called on small booth keepers and others and misinformed them regarding their duties under the provisions of the Internal Revenue Law and regarding the amount of taxes they would have to pay. It has also been stated to this office that certain municipal policemen and other local officials are playing on the fears of small traders; that after getting them to believe that they are delinquent in the payment of a tax, to which they are not subject, these officials promise, in consideration of bribes paid by the merchants, not to report their alleged delinquencies. These reports are now being investigated.

Under these conditions it has been deemed expedient to get in touch with the poor and ignorant classes throughout the Islands in the hope that after being informed of the exemption from taxation

which is secured to them by the Internal Revenue Law they may no longer be deluded or submit to illegal exactions.

This notice will be printed in the Spanish language and in the various local dialects and will be posted generally throughout the Islands. A brief statement of the provisions of the law is given below. The co-operation of all those able to read, and who have the interests of their less fortunate neighbors at heart, is earnestly solicited so that none may remain in ignorance of their rights and duties.

. . . .

When the Internal Revenue Act was first presented to the Philippines Commission by Vice-Governor Ide, in April, 1904, he announced that the immediate beneficial results to be expected from its enactment would be the repeal of an inequitable system of taxation under which the poor man was paying more than his share, and in the providing of funds with which the primary-school system could be extended and needed public improvement could be completed or undertaken. He also announced that the ultimate aim in proposing this law was to make it possible for the Insular Government to remove, or greatly reduce the rate of, the real-estate tax and to recommend the removal of, or great reduction in, the customs duties on trade between these Islands and the United States. In this spirit the Internal Revenue Law was enacted and on its successful operation very largely depends what measure of prosperity and enlightenment these Islands will in the future enjoy.

Governor Wright has on several occasions advised representative citizens in these Islands to sink minor differences of opinion and to work together for the great prize of free trade, or some near approach to it, with the United States.

. . . .

In the Congress of the United States the fight is now being made by the friends of these Islands for such reductions in customs duties as will make it possible for Philippine products to find a market in that country. The President and former Governor Taft, now Secretary of War, are the champions of Philippine rights in the United States and their most serious opponents are the representatives of the selfish interests in that country who would exclude Philippine sugar, cigars, and other products from America. Those interests would like to see the Internal Revenue Law of these Islands fail. It should not take the people of these Islands long to determine where their true interests lie.

After a few months the people commenced to recognize the good points in the law but the manufacturers of liquors and cigarettes continued to clamor loudly that as a result of

the tax the output of their manufactories had been greatly reduced and that they were on the verge of ruin. During the month of August, 1905, the Secretary of War and the Congressional party that accompanied him visited the Philippines. Several memorials and petitions were presented by the liquor and tobacco interests to Secretary Taft asking that the internal taxes on cigarettes and distilled spirits be either entirely removed or that the tax rates be radically reduced. Judging from statements made in some of these memorials it would appear that the Philippine Commission, by imposing a tax of half a centavo on each glass of liquor and of two centavos on each package of thirty cigarettes, had solved the temperance problem by annihilating the liquor and tobacco business; that the Commission by such a simple device had attained that which most of the nations of the earth had failed to attain through prohibitive tax rates, government monopoly, and actual prohibition.

But it was demonstrated that as a matter of fact, if any of the manufacturers in the Philippines had lost a part of their business, such loss was due to an increase made by them in the price of their wares in an amount not justified by the added internal revenue tax. So the taxes on liquors and cigarettes were not removed nor was the tax rate lowered. Tax paid cigarettes continued to be consumed at a normal average rate of 10,000,000 a day, and the consumption of distilled spirits and liquors is now very near the normal mark of 10,000,000 proof liters a year.

Since then opposition to the internal revenue law has been spasmodic and half-hearted. As the collection of the taxes was more completely made in remote islands, not at first satisfactorily covered, the revenue receipts increased materially from month to month. Spanish speaking Americans, to the number of sixty-five, were appointed as internal revenue agents, instructed in their duties, mounted and equipped and detailed to service in every part of the archipelago. They instruct both the taxpayers, speaking half a dozen dialects, and the six hundred native deputy collectors of

taxes as to the duties imposed on them by the internal revenue law.

By careful instruction and warning the agents endeavor to prevent violations of the law and only report to the collector of internal revenue those who persist in the commission of frauds. Most of these offenses have so far been in the nature of delinquent license tax payments and of petty frauds through the removal of small quantities of non-tax-paid liquors, cigars, or cigarettes. With few exceptions small fines, administratively imposed and collected, have had the desired deterrent effect and there have been but few cases in which prosecution of the defrauders in court has become necessary. Speedy, light draught naphtha launches have been supplied agents in the provinces where distilleries are located, and have proved most useful in patroling the swamp lands on which is found the nipa palm from the sap of which crude spirits are distilled. At the time the internal revenue law was enacted there were over five hundred primitive stills in operation in various parts of Luzon and in some of the other islands. As the regulations for the control of distilleries are drawn more tightly the tendency among these small distillers is to combine and erect a few modern distilleries.

The internal revenue taxes as now being collected are satisfactory in amount. As to the urgent necessity for collecting internal revenue taxes, Commissioner Ide, in his report for 1904 as secretary of finance and justice, says:

> It is apparent from the budget hereinafter stated that it would have been impossible for the insular government to have maintained itself during the coming year without the additional revenue accruing from this new and important legislation. It is hoped that the results will ultimately be so satisfactory as to enable the government to reduce the rates of customs duties or to abolish the land tax in whole or in part.

During the fiscal year ended June 30, 1906, internal revenue taxes were collected as follows:

Manufacturers of alcohol and tobacco products	4,328,144.37 pesos.
Licenses, dealers in alcohol and tobacco products	494,321.63 pesos.
Licenses, merchants, manufacturers and common carriers	1,365,392.50 pesos.
Licenses, occupations, trades and professions	308,184.49 pesos.
Mines and mining concessions	15,264.72 pesos.
Banks and bankers	155,160.50 pesos.
Insurance companies	20,181.18 pesos.
Documentary stamp taxes	166,167.38 pesos.
Cedulas	1,756,777.00 pesos.
Miscellaneous	125.13 pesos.
Forest products	193,638.01 pesos.
Total	8,803,356.91 pesos.

Under the apportionment provisions of the internal revenue law these collections accrue as follows:

To the insular treasury		5,122,871.80 pesos.
To the provincial treasuries:		
One half cedula taxes	878,388.50 pesos.	
Ten per cent. other collections	683,049.58 pesos.	
		1,561,438.08 pesos.
To the municipal treasuries:		
One half cedula taxes	878,388.50 pesos.	
Fifteen per cent other collections	1,024,574.37 pesos.	
Certain license taxes	216,084.16 pesos.	
		2,119,047.03 pesos.
Total		8,803,356.91 pesos.

Of the 2,119,047.03 pesos received by the various municipalities, as above, the sum of 341,524.79 pesos will, as provided in the internal revenue law, have to be devoted exclusively to the maintenance of free public primary schools.

The cost to the insular government for collecting the internal revenue taxes was a little over 5 per cent. of the amount collected; if to this be added the expenses defrayed from the provincial treasuries, the total cost would be not quite 7 per cent. In the United States, as a whole, the cost for collecting the internal revenue taxes has, in late years,

been about 2 per cent.; but in many of the states the cost for collection is much higher than it is in the Philippines. Thus during the fiscal year ended June 30, 1905, the cost for collection was in Alabama, 11 per cent., in Arkansas, 25 per cent., in Georgia 14 per cent., in Hawaii 24 per cent., in New Mexico 13 per cent., and in North and South Dakota 11 per cent.

The refunds made from the internal revenue collections to the various provinces and municipalities exceed in amount the total taxes which they collected under the obsolete Spanish taxes repealed by the internal revenue law. The additional revenues which accrue from the internal revenue taxes to the insular treasury have made it possible for the central government to appropriate for the benefit of the various provincial and municipal treasuries a sum equal to the amount they previously collected during an average year from the real estate tax imposed under the American regime. This has made possible the suspension of the land tax collections in the provinces for a period of one year and has afforded some relief to agriculturists who, in the nature of things, are the main sufferers from lack of a foreign market for the products of their lands. During the suspension of the land tax collections a thorough reassessment of lands has been undertaken which, it is believed, will result in an equalization of values and a more equitable assessment in future.

As far as it had the power to go the Philippine Commission has gone in the reconstruction of the fiscal affairs of the Philippine Islands. What remains to be done to round out the good work the United States Congress alone can do. If the customs barriers are razed and Philippine products are allowed free entry into the American market the resulting prosperity in the Philippine Islands will mean greatly increased internal revenue collections and increased power to purchase American goods; this will in turn make it possible for the Insular Government to do without the customs duties on goods imported from the United States and will

open another market to the American manufacturer. The internal revenue collections in Porto Rico increased about 40 per cent. within a few months after free trade was provided between that island and the United States.

There appears to be little warrant for the fears of the sugar producers and tobacco manufacturers in the United States that the removal of the customs duties would flood the American market with Philippine cigars and sugar. The American people now import from foreign countries much more sugar than the Philippine Islands could supply for several generations to come. The consumption of domestic cigars in the United States is now at the rate of eight billion a year, and the normal annual rate of increase is 2 per cent. The total exportation of cigars from the Philippine Islands to all countries is at present less than one hundred million a year, or about 1 per cent of the cigar consumption of the United States. If every cigar now exported from the Philippine Islands was sent to the United States the normal domestic cigar trade of that country would not be affected; there would probably be no increase in the consumption of American cigars for about six months, but after that the normal annual increase of about 2 per cent. would be resumed.

During the few years in which the admission of Philippine products to the American market has been under consideration the natural increase alone in the consumption of sugar and cigars by the American people has exceeded in amount the total production, both for domestic consumption and for export, of sugar and cigars in these islands. The insignificance of the entire Philippine crop as compared with the vast and growing demands of American consumers is too obvious to require further remark.

But insignificant as the Philippine production compared with the American production may be, the increase of even a few million dollars per annum in the export trade of the Philippine Islands is a matter of immediate vital interest and of far reaching importance to the Filipino people. It

is the measure of the narrow border land lying between better methods of living, more schools, more roads and future prosperity on the one hand and commercial and agricultural depression, stagnation and eventual retrogression on the other.

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